



# Online Retailing and Australian Retail Property Update

June 2018

It has been six months since Amazon Marketplace was launched in Australia. Over this time, online retail trade has continued to grow and retailers have introduced a range of strategies to combat or benefit from growth in the online sector. Retail property owners continue to reshape their portfolios through redevelopment, remixing of tenants and strategic acquisitions, reflecting the dynamic and ever changing retail landscape.

## The past six months for Amazon Australia

Amazon Marketplace was launched in Australia on 4 December 2017. Amazon had a somewhat rocky start in Australia, with customers complaining of slow delivery times and a limited range of stock. In the initial period following its launch in Australia, an estimated 12% of customer reviews were negative.

However, the proportion of negative reviews has since declined to be circa-6%. Furthermore, since their launch, there has been exponential growth in the number of sellers on the local Marketplace. According to Marketplace Pulse, as at May 23, it was estimated that there were 13,412 sellers on the retailer's Australian Marketplace. This equates to 79 new sellers listing on Amazon Marketplace in Australia each day since their launch in December. The below chart shows growth in the number of sellers on the Amazon Marketplace. Marketplace Pulse estimates that there will be 50,000 sellers on the Australian Marketplace by the end of 2018. Growth in the number of sellers is expected to be partly driven by Amazon's recent announcement that they will cease deliveries from Amazon.com to Australia from 1 July this year.



Source: Marketplace Pulse, m3property

Fulfilment by Amazon (FBA) was introduced in Australia in February. FBA involves Amazon looking after the picking, packing, shipping and customer service component of orders placed on the Amazon Marketplace. Circa-19% of sellers on the Australian Amazon Marketplace are reported to be using this service at present.

Whilst Amazon's full Prime Membership is not yet available in Australia, orders over \$49 come with free delivery within Australia if the seller uses FBA or the product is sold directly by Amazon. It has been reported that Amazon will introduce its full Prime Membership in Australia during the second half of this year. Based on what has happened in other overseas markets, the introduction of the Prime Membership in Australia is expected to result in an acceleration in Amazon's sales and market share in Australia.

Amazon is expected to introduce AmazonFresh (its grocery offering) to Australia during the second half of this year. According to UBS's 2018 supplier survey, approximately 48% of suppliers surveyed state they are currently in talks with Amazon regarding supplying the group with groceries. This is up from 18% in 2017. The report also showed that 14% of suppliers are in talks with German group Kaufland, up from 2% in 2017. The first Kaufland store is expected to open in Australia in 2020 and some market sources have forecast the group to be operating circa-50 stores by 2025.


## The Status of Online Retailing in Australia


According to latest figures from NAB, online sales in Australia grew by 14.2% over the year to March 2018. For comparison, over the year to March 2017, online sales growth was 9.0%. The online retail sector is undeniably growing in Australia and this occurs at a time when in-store retail trade growth is rather subdued.


In addition to Amazon, other online marketplaces are also growing momentum with consumers and establishing operations in Australia. For example, Chinese e-commerce group VIP.com opened its Australian distribution centre in Sydney late last year. The group aims to achieve \$500 million of sales in Australia this financial year.


## Changing Retail Environment and Retailer Strategies


The retail environment continuously evolves to tackle the current challenges and to take advantage of prevailing opportunities. Consumers are demanding convenience, experiences, the most up to date products and value for money, forcing retailers to introduce a number of key strategies to meet these requirements. It is expected that retailers will continue to expand their online offering and services over the foreseeable future. A selection of retailer strategies are highlighted below.


 **Coles** have partnered with Airtasker to allow 64 stores across Sydney to have their groceries delivered. Customers can communicate direct with the deliverer and select specific delivery times.


 **Woolworths** have plans to open up new 'dark stores' in order to improve its online offering. The group is also offering click and collect from all stores (with 1 in 10 having drive-through click and collect capabilities) and has been rolling out its smaller-format Metro store.

 **Myer** have launched The Myer Market, an online marketplace that offers click and collect, user rewards and a 'no regrets' return policy.

 Retailers including **Beacon Lighting, Kathmandu, Mitch Dowd, Gazman** and **Rockmans** have opened Amazon Australia Marketplace stores.

 **Kmart and BigW** have improved their delivery and click and collect options.

 **Accent Group** (including **Athlete's Foot, CAT, Dr Martens** and others) are providing the option of three-hour delivery in metropolitan locations via its network of stores.

 **eBay** have introduced the eBay Plus service, which includes a number of benefits such as premium customer service, exclusive offers, double flybuy points and free delivery and returns on some items.

## What are the major retail property operators doing?

### Remixing tenants

Progressive retail property owners are increasingly adjusting their tenant mix to include more services, entertainment, and food and beverage (F&B) operators. A recent survey by the Urban Land Institute (ULI) in Europe (results below) shows how the tenant mix of shopping centres is expected to evolve over the coming three years.

#### Traditional Retail



**72%** of respondents say there will be a **decline** in the proportion of these tenants

#### Food and Beverage



**84%** of respondents say there will be an **increase** in the proportion of these tenants

#### Leisure



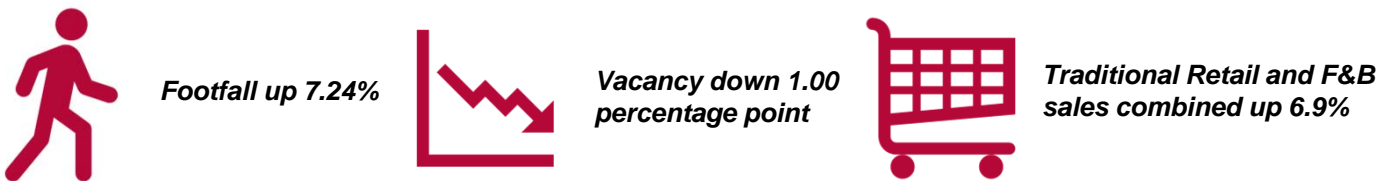
**68%** of respondents say there will be an **increase** in the proportion of these tenants

#### Amenities



**90%** of respondents say there will be an **increase** in the proportion of these tenants

The ULI study also measured the impact of increasing leisure and F&B space in 12 European centres on footfall, vacancy and sales. Results of the study paint a compelling picture for the positive effect of the inclusion of non-traditional tenants in centres on these key indicators. Note that the growth in sales shown below would be partly accounted for by some centres in the study increasing their GLAR via expansion during the study period.



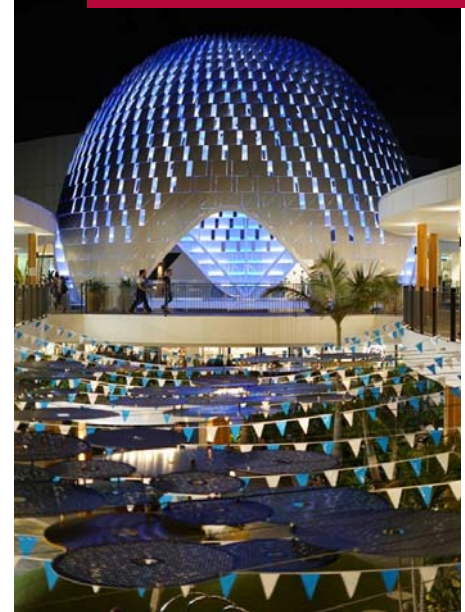
### Redevelopment and expansions of centres

Progressive retail property owners have embraced changes in consumer spending habits during recent years and ramped up their plans for the redevelopment and expansion of centres to cater towards the constantly evolving expectations of consumers. In Queensland, Kawana Shoppingworld is currently undergoing an expansion to include a new dining precinct and cinemas. The cinemas will be the first Gold Class Cinemas on the Sunshine Coast and is expected to be a big drawcard for the centre in attracting patronage. Also in Queensland, Westfield Chermside underwent a substantial expansion (including a rooftop entertainment, dining and leisure precinct) that was completed last year. Scentre Group have previously indicated that the redevelopment was expected to result in growth of 35% in retail sales for the centre.

**Construction works on Kawana Shoppingworld**



**Part of the Westfield Chermside rooftop dining precinct**



There has also been an increased focus by owners on building mixed-use developments (such as hotels, apartments and office space) around retail centres. For example, Macquarie Centre in New South Wales has approval for an office, hotel, serviced apartment and residential component. The incorporation of mixed-use space provides several advantages to landlords with residential components supplying a new customer base; and hotels, medical, large format retail, child care and service stations providing convenience for customers and raises footfall.

## Investing in assets with strong growth profiles

According to a recent survey conducted by the National Australia Bank, The NAB Commercial Property Survey, 58% of respondents expect REITs to hold or acquire retail assets over the next 12-months. A further 46% of respondents were of the opinion that ‘other’ retail investors would hold or acquire assets over the coming year. The proportion of respondents who thought that ‘other’ investors would divest of assets over this period was 17%, compared with 11% for REITs. This indicates a desire by major players in the market to continue to invest in retail assets despite the already tight yields in sector.

A number of retail property investors have been focusing their acquisition strategy on retail assets with a high proportion of non-discretionary tenants. Neighbourhood / convenience-based centres with strong demographic profiles (such as centres in catchments experiencing, or forecast to experience, strong population growth) and strong tenant profiles have been selling at record-low yields. Centres with future development potential have also been in strong demand.

One example of a buyer with this strategy is RAM (Retail Asset Management). RAM have been active in the neighbourhood / convenience sector over the past two years. The group have acquired a number of ‘defensive’ centres with strong tenant profiles and growth potential. One of their most recent acquisitions is the Springfield Fair neighbourhood centre in Queensland. Springfield Fair is located in a strong growth corridor of Greater Brisbane Region and has a strong occupancy history and tenant profile. Another recent purchase by the group is the NightOwl convenience centre in North Lakes in 2017. North Lakes is another location in the Greater Brisbane Region experiencing strong population growth.

RAM also looks for development upside in their acquisitions and has recently commented on their strategy of ‘actively managing’ assets and adding value to the centres via various methods such as incorporating mixed-use components and building pad sites for fast food operators or service stations.

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